

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Application of San Diego Gas & Electric Company (U 902 M) for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2024.

Application 22-05-016  
(Filed May 16, 2022)

Application of Southern California Gas Company (U904G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.

Application 22-05-015  
(Filed May 16, 2022)

**PROTEST OF SAN DIEGO COMMUNITY POWER AND CLEAN ENERGY ALLIANCE  
TO SAN DIEGO GAS & ELECTRIC COMPANY'S  
TEST YEAR 2024 GENERAL RATE CASE APPLICATION**

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*On behalf of San Diego Community Power and  
Clean Energy Alliance*

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**I. INTRODUCTION**

On October 6, 2017, San Diego Gas & Electric Company ("SDG&E") filed Application (A.) 22-05-016, its Test Year ("TY") 2024 General Rate Case ("GRC"), seeking to increase its electric and gas revenue requirement and base rates effective on January 1, 2024, and increase its revenue requirement in each of the following three years, 2025-2027. On the same day, Southern California Gas Company ("SoCalGas") filed A.22-05-015, its TY 2024 GRC, seeking to increase its gas revenue requirement and base rates effective on January 1, 2024, and increase its revenue requirement in each of the following three years, 2025-2027. Because SDG&E and SoCalGas are affiliated companies owned by Sempra Energy and their applications involve related questions of

law and fact, similar issues, and have common witnesses, the Commission consolidated these two applications on June 8, 2022.<sup>1</sup>

Pursuant to Rule 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission” or “CPUC”), San Diego Community Power (“SDCP”) and Clean Energy Alliance (“CEA”) (collectively, the “Joint CCAs”)<sup>2</sup> hereby protest certain aspects of the relief sought in the above-captioned *Application of San Diego Gas & Electric Company (“SDG&E”) (U 902 M) for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2024* (“Application”). The Joint CCAs have identified several issues below that should be thoroughly investigated before the Commission grants the relief requested in the Application. The Joint CCAs respectfully request that the Commission set this matter for hearing to fully examine those issues together with any other issues that may arise during the course of the proceeding.

## **II. OVERVIEW OF GRC REQUESTS AND THE BROADER CONTEXT IN WHICH THEY OCCUR**

As customers experience the combined effects of rising inflation and the lingering economic hardships emanating from the COVID-19 pandemic, it is crucial for the Commission to consider the additional customer impacts resulting from adoption of SDG&E’s proposed revenue requirement and rate increases. Currently, customers are facing an inflation rate increase of 8.6%, the largest 12-month increase in the last four decades,<sup>3</sup> as well as broader increases to

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<sup>1</sup> *Administrative Law Judge’s Ruling Consolidating Applications*, A. 22-05-016, June 8, 2022, p. 1-2.

<sup>2</sup> Each of the above-mentioned CCAs respectfully requests independent party status.

<sup>3</sup> U.S. Bureau of Labor Statistics, Consumer Price Index Summary, June 10, 2022, <https://www.bls.gov/news.release/cpi.nr0.htm>.

the cost of living, eroding their buying power.<sup>4</sup> These proposed increases also come at a time when economic impacts from the pandemic have customers currently facing a substantial accumulation of past debt, and as the state’s disconnection moratorium has ended, subject to risk of disconnection by the utilities.

The Commission has taken notice of affordability challenges to customers and issued a Proposed Decision on June 10, 2022, ordering SDG&E to “introduce the Affordability Ratio 20 (“AR20”), Affordability Ratio 50 (“AR50”), and Hours-at-Minimum-Wage (“HM”) in its General Rate Case 2024 Phase 2 application.”<sup>5</sup> The Affordability ratio and the HM together measure the “energy burden” by contrasting the cost of a utility bill with the resources of a representative household within a community.<sup>6</sup> AR50 is the “affordability ratio for a representative hypothetical household in the middle, resource-wise, compared to others in a community;” AR20 is the “affordability ratio for a representative hypothetical household at the lower-end, resource-wise, compared to others in a community;” and the HM reflects “any household that earns the minimum wage of their community.”<sup>7</sup> Additionally, in a GRC proceeding with an estimated increase greater than one percent, “the same entity updating the rates associated with an authorized revenue requirement shall update the affordability metrics for production in the same Commission document that presents the rate impacts.”<sup>8</sup> SDG&E’s current application should not be viewed in isolation from these broader developments. The Joint CCAs ask that the Commission incorporate affordability factors or

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<sup>4</sup> The Guardian, U.S. Inflation hits 40-year High of 8.6% as Food, Gas and Shelter Costs Rise, June 10, 2022, <https://www.theguardian.com/business/2022/jun/10/us-inflation-rate-may-2022-four-decade-high>.

<sup>5</sup> Proposed Decision of Commissioner Houck (June 10, 2022) at page 73, OP 7.

<sup>6</sup> *Id.* at p. 3.

<sup>7</sup> *Id.* at p. 4.

<sup>8</sup> *Id.* at page 74, OP 10.

considerations into the framework of evaluating the reasonableness and necessity of SDG&E's requests in this GRC Application.

The impact of SDG&E's application on both bundled and unbundled customers requires cautious and careful consideration under the applicable standards of proof. SDG&E has burden affirmatively establishing the reasonableness of all aspects of its application,<sup>9</sup> and that burden of proof generally is measured based upon a preponderance of the evidence.<sup>10</sup> The Commission and parties must carefully review the Application and voluminous pages of supporting testimony and workpapers to ensure that there is sufficient basis to support SDG&E's proposed increases to its electric distribution revenue requirements and that they are just and reasonable and properly functionalized.

Failure to properly distribute just and reasonable revenue increases across the proper utility functions will have a substantial and adverse impact on the customers who receive generation service from the Joint CCAs. Proper functionalization, i.e., distinguishing generation costs from distribution costs and properly categorizing them, is critical to ensuring fair competition between CCAs and the incumbent utility. If SDG&E were to inappropriately place generation related costs into the distribution revenue requirement, the Joint CCAs could be placed at a significant competitive disadvantage relative to SDG&E, contravening Senate Bill 790's aim to "foster fair competition."<sup>11</sup> Furthermore, improper cost categorization can lead to substantial cost shifts that effectively penalize customers through no fault of their own. As such,

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<sup>9</sup> D.12-12-030 at 42.

<sup>10</sup> *See, e.g.*, D.18-01-009 at 9-10; D.15-07-044 at 29 (observing that the Commission has discretion to apply either the preponderance of evidence or clear and convincing standard in a ratesetting proceeding, but noting that the preponderance of evidence is the "default standard to be used unless a more stringent burden is specified by statute or the Courts.").

<sup>11</sup> *See* § 2(h) of Senate Bill (SB) 790 (Leno, 2011).

the Joint CCAs respectfully request that the Commission carefully evaluate SDG&E's newly proposed cost functionalization methodologies, any rate changes by utility function, the justness and reasonableness of any charges to be borne by CCA customers, and the proper allocation of revenues among bundled and unbundled customers.

### **III. INTEREST IN THE PROCEEDING**

The Joint CCAs are governed by a Board of Directors comprised of elected officials who represent the individual cities and counties the CCA serves or an elected City Council.<sup>12</sup> In their representative capacity, the Joint CCAs are advocates for their customers and their local energy programs before the Commission. The Joint CCAs provide generation services to their customers and their customers receive transmission, distribution, billing, and other services from SDG&E. Such customers are categorized as unbundled customers. Unbundled customers must pay the same electric distribution, transmission, and non-bypassable rates as SDG&E's bundled customers. However, unbundled customers also pay CCA-specific generation rates, which vary and are partially influenced by local mandates to procure and maintain clean electricity portfolios that in many cases exceed state requirements for renewable generation.

Since CCA customers are not responsible for SDG&E's generation costs, any shift in such cost into the distribution component of SDG&E's rates through the GRC Application would force CCA customer to subsidize the generation costs associated with bundled customers. This cross-subsidization puts CCAs at competitive disadvantage, contravening Senate Bill 790's aim to "foster fair competition."<sup>13</sup> The Commission has previously emphasized its desire and its legal

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<sup>12</sup> See Pub. Util. Code §366.2.

<sup>13</sup> Section 2(h) of Senate Bill (SB) 790 (Leno, 2011).

commitment to avoid any such cross-subsidization.<sup>14</sup> Thus, ensuring the Application’s proposed revenue increases are properly categorized and reflect the actual costs of the proposed SDG&E services are of substantial interest to the Joint CCAs.

Similarly, CCA and other unbundled customers, as well as bundled customers, are subject to several non-bypassable charges (“NBCs”), including the Power Charge Indifference Adjustment (“PCIA”) and the Cost Allocation Mechanism (“CAM”), some cost components of which are determined within SDG&E’s GRC proceedings. The utility’s GRC is the only opportunity to ensure that SDG&E’s utility owned generation costs, including those that are ultimately recovered through NBCs, are just, reasonable and prudently incurred. As such, the Joint CCAs have a real, present tangible and pecuniary interest in SDG&E rate proposals that could flow to such NBCs.

#### **IV. GROUNDS FOR PROTEST**

While the Joint CCAs’ examination of the Application is ongoing, the Joint CCAs have identified several initial issues that directly and substantially impact their interests described above. The specific issues enumerated below should be considered preliminary matters that the Joint CCAs have identified as unjust and unreasonable and/or potentially having anti-competitive impacts. The Joint CCAs are still examining the Application, and particularly given the nature of the GRC proceeding and the voluminous information presented in SDG&E’s Application and supporting testimony, the Joint CCAs reserve the right to address, protest and analyze additional

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<sup>14</sup> See, e.g., D.13-08-023 at 17 (“The Commission remains committed to ensuring that Community Choice Aggregators and other non-utility LSEs may compete on a fair and equal basis with regulated utilities. Toward this end, we will continue to consider both the mechanics and overall fairness of cost allocation and departing load charge methodologies proposed in the future, with the specific goal of avoiding cross-subsidization.”) (emphasis added).

issues that may arise in the future. The Joint CCAs expect to present evidence in prepared testimony and through evidentiary hearings showing that SDG&E has failed to meet their burdens of demonstrating the reasonableness of various showings, including but not limited to certain proposals regarding electric distribution costs, electric generation costs, customer service costs, administrative and general expenses, shared services and other support costs, rate base, and post-test year ratemaking. Thus far, we have identified the following specific issue that warrant close scrutiny.

**A. Reasonableness of Increase to Revenue Requirements**

The Commission must ensure that the rates charged by SDG&E are just and reasonable.

As the Commission explained in D.01-10-031:

We have a regulatory responsibility to ensure [SDG&E] provides adequate service at just and reasonable rates, and we must view the facts accordingly. Our legislative mandate encompasses promoting the “safety, health, comfort, and convenience of [SDG&E’s] patrons, employees, and the public.” See §451.<sup>15</sup>

The Joint CCAs protest SDG&E’s request for authorization to increase its revenue requirements as presented in the Application, as SDG&E’s request is without sufficient support. As the applicant, the burden lies with SDG&E to prove entitlement to the relief being sought here and SDG&E must affirmatively establish the reasonableness of each and every proposal within the application.<sup>16</sup>

SDG&E’s application requests remarkable revenue requirement increases. For this GRC, SDG&E requests a \$286 million, or 6.7%, increase in its annual revenue requirement for electric

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<sup>15</sup> D. 01-10-031, Order Granting Rehearing of and Modifying Decision 00-02-046, p. 5.

<sup>16</sup> See, *i.e.*, D. 09-03-025, p. 8 (discussing SCE’s burden of proof in its Test Year 2009 General Rate Case, A.07-11-011).

beginning January 1, 2024, based on a 2024 Test Year (“TY”).<sup>17</sup> If approved, a typical residential electric customer using 400 kWh/month would see a bill increase of \$9.00 per month (5.6%).<sup>18</sup> In addition to the proposed revenue requirement increase for TY 2024, SDG&E’s proposed post-test year (“PTY”) ratemaking mechanism would result in combined electric and gas revenue requirement increases of \$363.2 million (12.02%) in 2025, \$338.1 million (9.99%) in 2026, and \$306.9 million (8.24%) in 2027 , of which 78.2% is attributable to electric service.<sup>19</sup>

As detailed above, customers are currently facing high inflation rates and higher costs for living expenses. Now that the State’s moratorium on disconnections has ended, a significant amount of customer who are still in arrears from the pandemic are subject to disconnection. Looking through an affordability lens, the Joint CCAs have questioned the reasonableness and/or necessity of some of the proposed investments and activities during a time where our local communities are facing financial challenges.

To establish the reasonableness of its proposals, SDG&E must present sufficient support for its increased revenue requirement. A substantial portion of the Application’s expenditure requests are largely driven and supported by SDG&E’s Sustainability Strategy; a corporate strategy framework built around the company’s own emission reduction goals.<sup>20</sup> While SDG&E’s goals and strategies contained within its Sustainability Strategy are commendable, they are set by the company’s corporate leaders and do not reflect the same level of public oversight and development that the State and Cities use to fully vet the adoption and

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<sup>17</sup> Exh. SDGE-01 at p. BAF-13:7 to BAF 13:10.

<sup>18</sup> Exh. SDGE-01 at p. BAF-14:2 to BAF 14:3.

<sup>19</sup> Exh. SDGE-45 at p. MEH-2, Table MH-1.

<sup>20</sup> *Building a Better Future: Our Commitment to Sustainability* (“Sustainability Strategy”), October 2020; SDG&E, *Building a Better Future: Sustainability Strategy Update*, October 2021.

implementation of such policies, goals, and plans. Further, SDG&E intends for its Sustainability Strategy to be a “living” document which will be capable of change without stakeholder input or Commission approval.<sup>21</sup> SDG&E’s Sustainability Strategy underpins many of its proposed actions and investments driving the increased revenue requirement, including upgrading its infrastructure, enhancing its hardware and software capabilities, accelerating its energy transition, and expanding its staff and operational activities.<sup>22</sup> Thus, the Commission should consider the strength of such a document supporting activities driving significant rate increases to be low.

As detailed in the sections that follow, the Joint CCAs seek careful evaluation of justness and reasonableness of the proposed expenditures causing such a significant increase in SDG&E’s revenue requirements.

## **B. RAMP Request**

The Joint CCAs support a safe and reliable electric delivery system and recognize that substantial capital expenditures are sometimes necessary to realize this goal. SDG&E proposes over \$3.2 billion in capital spending from 2022 to 2024 and just under \$300 million in O&M in 2024 for various safety-related initiatives identified in its 2021 Risk Assessment Mitigation Phase (“RAMP”) report.<sup>23</sup> This figure represents the single largest category line item in SDG&E’s application and drives a substantial amount of the proposed rate increases that customers will ultimately have to pay. As such, the RAMP-related expenditures require further scrutiny to ensure the proposed projects and initiatives – 230 of them in total – are just and

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<sup>21</sup> Exh. SDGE-02 at p. EDL-6:9 to EDL-6:13.

<sup>22</sup> Exh. SDGE-02 at p. EDL-10, Table ED-1.

<sup>23</sup> Exh. SDGE-01 at p. BAF-14:14 to 18.

reasonable. RAMP proposals must also be evaluated to ensure that that they are properly categorized according to their function, and if the function is joint, that costs are allocated properly between categories.<sup>24</sup>

### **C. Revintaging SDG&E's Utility-Owned Generation Resources**

CCA customers are subject to several non-bypassable charges (“NBCs”), including the Power Charge Indifference Adjustment (“PCIA”), some cost components of which are determined within SDG&E’s GRC proceedings. The utility’s GRC is the only opportunity to ensure that SDG&E’s utility owned generation costs, including those that are ultimately recovered through NBCs, are just, reasonable, prudently incurred, and correctly vintaged. Accordingly, the Joint CCAs have a strong interest in SDG&E the generation-related costs SDG&E proposes to incur within this proceeding.

The Commission adopted the PCIA to ensure that when investor-owned utility IOU customers depart from bundled service and receive their electricity from a non-IOU provider, such as a CCA, those customers remain responsible for costs previously incurred on their behalf by the IOUs—but only those costs.<sup>25</sup> The Commission has stated “new investments in an old power plant may represent such a significant overhaul of the facility as to justify a “re-vintaging” of the facility. Likewise, it is possible that plant investments for certain upgrades may justify a different vintage treatment for those investments than for the underlying facility.”<sup>26</sup>

SDG&E has proposed a number of investments in its existing generation plants that may warrant either re-vintaging an entire generation plant or assigning a different vintage specific to

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<sup>24</sup> Exh. SDGE-01 at p. BAF-14:15.

<sup>25</sup> D.18-10-019 at 2-3.

<sup>26</sup> D.18-10-019 at 135.

those investments. First, SDG&E proposes to add two 10 MW battery energy storage systems to the Miramar Energy Facility, which is a 92 MW peaking plant.<sup>27</sup> The project will also “install new operational controls logic to optimize operational efficiency” and “reduce GHG emissions and water use between the combined use of both the existing gas turbines.”<sup>28</sup> SDG&E asserts the proposed battery storage units would “allow the facility to operate in a quicker response time compared to starting the gas turbines when the facility is called upon for reliability needs.”<sup>29</sup> In line with D.18-10-019, the Joint CCAs plan to investigate as part of this proceeding whether modifying Miramar to be a hybrid generating facility constitutes a new procurement decision that requires either re-vintaging the plant or establishing a new vintage for storage-related costs.<sup>30</sup>

Second, SDG&E proposes what appears to be an approximately \$17 million hydrogen pilot at Palomar generating facility.<sup>31</sup> Among other things, the pilot will “include a hydrogen blending system that will allow the onsite 588 MW gas-fired combined-cycle electric generation facility to accept hydrogen gas as a blended feedstock with natural gas.”<sup>32</sup> SDG&E proposes to use the pilot to potentially increase the amount of hydrogen blended with natural gas—currently a low amount at approximately 2%—over time.<sup>33</sup> The Joint CCAs plan to investigate as part of

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<sup>27</sup> Exh. SDGE-14 at DSB-3:8-11.

<sup>28</sup> Exh. SDGE-15 at FV-32:17-21.

<sup>29</sup> Exh. SDGE-15 at FV-32:23-26.

<sup>30</sup> Exh. SDGE-15 at FV-31:3 to FV-32:15.

<sup>31</sup> Exh. SDGE-14 at p. DSB-15, Table DSB-5.

<sup>32</sup> Exh. SDGE-15 at FV-31:3 to FV-32:15.

<sup>33</sup> Exh. SDGE-15 at FV-31:3 to FV-32:15.

this proceeding whether changing the fuel stock at Palomar constitutes a new procurement decision that requires establishing a new vintage for hydrogen-related costs.<sup>34</sup>

Third, SDG&E proposes a “Generation Capital Budget” for unspecified capital projects of \$40 million per year tied to its utility-owned generation assets.<sup>35</sup> Such costs could also warrant re-vintaging or separate vintaging treatment for these costs depending on the nature of the projects and their impact on SDG&E’s generating facilities. The Joint CCAs on-going review of SDG&E’s application also may reveal other instances where a close look at the vintaging of generation costs is warranted.

#### **D. Grid Modernization**

Given the increase in distributed energy resources through the state, grid modernization is an important topic for policy makers and the subject of several Commission proceedings and initiatives.<sup>36</sup> In the Application, SDG&E proposes rate increases to fund a 10-year grid modernization plan that includes funding for assets, infrastructure, instrumentation and control systems, and cybersecurity technology.<sup>37</sup> SDG&E’s testimony includes a copy of the grid modernization plan, which its witness identifies as having been adopted pursuant to D. 18-03-023, but the plan is unsigned and undated and does not appear to be a Commission-approved document of any kind.<sup>38</sup> Regardless, while SDG&E describes several projects that support the grid modernization effort, additional information and analysis is required before parties are in a

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<sup>34</sup> Exh. SDGE-15 at FV-31:3 to FV-32:15.

<sup>35</sup> Exh. SDGE-14 at DSB-14:16 to DSB-16:12.

<sup>36</sup> See, e.g., *Order Instituting Rulemaking to Modernize the Electric Grid for a High Distributed Energy Resources Future*, R. 21-06-017, filed June 24, 2021.

<sup>37</sup> Exh. SDGE-01 at p. BAF-21:22 to BAF-22:5.

<sup>38</sup> SDGE-12 at TS-vii, Appendix C.

position to properly categorize costs and determine whether they are reasonable. The Joint CCAs plan to conduct additional review of SDG&E's testimony and conduct discovery to gather the information needed.

**E. Functionalization of Clean Energy Innovations and Company-Owned DER**

SDG&E's proposed cost allocations must comply with longstanding Commission policy to allocate costs to the customers on whose behalf those costs are incurred.<sup>39</sup> As explained by the Commission:

An appropriate functionalization methodology is important to ensure that costs are appropriately allocated to its electric generation function, which only bundled customers pay, and electric distribution function, which both bundled and unbundled customers pay. Without an appropriate cost functionalization process, costs may be misappropriated between electric generation and distribution functions, possibly causing cost shifts between bundled and unbundled customers.<sup>40</sup>

Failure to properly distribute just and reasonable revenue increases across the proper utility functions will have a substantial impact on the millions of customers who receive generation service from the Joint CCAs. If SDG&E were able to shift some of its generation costs into the distribution component of its rates through the current GRC Application, CCA customers would be forced to subsidize bundled customer generation rates. The Commission has previously emphasized its desire and its legal commitment to avoid any such cross-subsidization.<sup>41</sup>

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<sup>39</sup> D.20-12-005 at 293 (citing D.19-09-004 at 4).

<sup>40</sup> D.20-12-005 at 316.

<sup>41</sup> See, e.g., D.13-08-023 at 17 ("The Commission remains committed to ensuring that Community Choice Aggregators and other non-utility LSEs may compete on a fair and equal basis with regulated utilities. Toward this end, we will continue to consider both the mechanics and overall fairness of cost allocation and departing load charge methodologies proposed in the future, with the specific goal of avoiding cross-subsidization.") (emphasis added).

Proper functionalization also is critical to ensuring fair competition between CCAs and the incumbent utility. If SDG&E were to inappropriately place generation related costs into the distribution revenue requirement, the Joint CCAs could be placed at a competitive disadvantage relative to SDG&E, contravening Senate Bill 790's aim to "foster fair competition."<sup>42</sup>

SDG&E's Application includes a number of proposed O&M and capital expenditures between 2022 and 2024 for which proper functionalization is not immediately clear. One such capital expenditure is the utility's plans to spend \$20 million to \$26 million in capital annually for "clean energy innovations" between 2022 and 2024.<sup>43</sup> Those costs include expenditures for what the utility calls advanced energy storage, microgrids and controls, and mobile energy storage, among other things.<sup>44</sup> The purported benefits of many of these costs include both a distribution component (improved reliability) and a generation component (energy dispatched from solar or storage resources).

Witness Valero states the benefits of the advanced energy storage projects include "leveraging excess renewable energy to charge the battery component of the microgrid during the day when the circuit is experiencing lighter load levels, discharging the battery component of the microgrid during times of higher loading, and mitigating electric service intermittency."<sup>45</sup> The testimony adds that the cost of this capital "supports SDG&E's grid modernization efforts and is part of the Grid Modernization Plan."<sup>46</sup> Other similar projects are described as continuing to "advance the company's strategic deployments of energy storage devices on distribution

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<sup>42</sup> See § 2(h) of Senate Bill (SB) 790 (Leno, 2011).

<sup>43</sup> Exh. SDGE-15 at p. FV-17, Table FV-9.

<sup>44</sup> Exh. SDGE-15 at p. FV-17, Table FV-9.

<sup>45</sup> Exh. SDGE-15 at FV-15:5-8.

<sup>46</sup> Exh. SDGE-15 at FV-15:8-10, FV-20:7-8.

circuits with an abundance of PV penetration ... to effectively manage the reliability of the grid.”

<sup>47</sup> SDG&E’s Electric Generation testimony also includes a number of investments in microgrids and battery energy storage that appear to combine both generation elements and distribution elements.<sup>48</sup>

Utilizing energy from utility-owned generation assets to assist in management of the distribution system blurs the lines between two of the traditional areas of functionalization, generation and delivery. The Commission must ensure fair functionalization of these costs, and similarly situated O&M costs, to avoid prohibited cross-subsidization. Beyond these discrete issues, the Joint CCAs seek to carefully evaluate SDG&E’s functionalization methodologies across *all* aspects of its business to assess the justness and reasonableness of any charges to be borne by CCA customers.

#### **F. Functionalization and Reasonableness Review of Wildfire Related Costs**

SDG&E’s Application includes substantial wildfire related costs and infrastructure investments. SDG&E has requested that the CPUC adopt its wildfire mitigation and vegetation management TY 2024 forecast of \$738.3 million in capital expenses plus \$174.6 million in O&M expenses.<sup>49</sup> As wildfires pose significant concerns for all customers in SDG&E’s service territory, the Joint CCAs value SDG&E’s continued efforts to improve the safety of its equipment and implement new protection measures to reduce the risk of future fires.

The substantial costs associated with these efforts flow through as significant costs for both unbundled and bundled customers and require careful review and cost classification to

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<sup>47</sup> Exh. SDGE-15 at FV-20:2-4.

<sup>48</sup> Exh. SDGE-14 at DSB-5:7 to DSB-7:11.

<sup>49</sup> Exh. SDGE-13 at JTW-v to JTW-vi.

ensure funding is maximized and distributed fairly through SDG&E's territory. Much of the SDG&E's forecasted costs will support efforts to reduce the risk of wildfire and impacts of PSPS by hardening approximately 590 miles of electric distribution between 2022 and 2024 using covered conductor and undergrounding. Forecasted costs are also associated with SDG&E's Grid Design and System Hardening projects, including initiatives like SDG&E's generator programs, which provide customers with renewable backup power during PSPS events<sup>50</sup> as well as SDG&E's activities associated with installing four microgrid projects.<sup>51</sup>

The benefits of many of these costs appear to include both a distribution component (improved reliability) and a generation component (energy dispatched from microgrid projects and SDG&E's generator programs). SDG&E's cost allocations are of particular importance to Joint CCAs' customers given that any inaccurate cost allocation would result in improper cost-shifting among bundled and unbundled customers. If SDG&E were able to shift some of its generation costs into the distribution component of its rates through the current GRC Application, CCA customers would be forced to subsidize bundled customer generation rates. The Commission has previously emphasized its desire and its legal commitment to avoid any such cross-subsidization.<sup>52</sup>

Relatedly, many of the above-mentioned efforts to mitigate wildfire risk and reduce PSPS impacts, like its grid hardening plan and use of advanced technology, stem from its most recent

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<sup>50</sup> Exh. SDGE-13 at JTW-vi; Exh. SDGE-13 at JTW-49:13 to JTW-49:21.

<sup>51</sup> Exh. SDGE-13 at JTW-124:5 to JTW-125:19.

<sup>52</sup> See, e.g., D.13-08-023 at 17 ("The Commission remains committed to ensuring that Community Choice Aggregators and other non-utility LSEs may compete on a fair and equal basis with regulated utilities. Toward this end, we will continue to consider both the mechanics and overall fairness of cost allocation and departing load charge methodologies proposed in the future, *with the specific goal of avoiding cross-subsidization.*") (emphasis added).

Wildfire Mitigation Plan Update, on February 11, 2022 (“2022 WMP Update”), which has yet to be approved by the Commission.<sup>53</sup> Additionally, SDG&E’s Application also seeks to recover significant incremental costs, currently recorded in its Wildfire Mitigation Plan Memorandum Account (“WMPMA”), for 2019-initiatives that were unanticipated in the TY 2019 GRC.<sup>54</sup> However, the cumulative recorded WMPMA balances for SDG&E’s 2019 GRC cycle was not available at the time this GRC application is filed.<sup>55</sup> Thus, SDG&E’s is proposing to use separate tracks to seek reasonableness review of WMPMA balances:

*Track 2 filed mid-2023:* WMPMA balances covering May 30, 2019,  
through December 2022

*Track 3 filed mid-2024:* WMPMA balances covering YR2023

Accordingly, a careful review is necessary to ensure that SDG&E’s proposals comply with Commission directives and provide a sufficient record to support its requested relief.

#### **G. Smart Meters**

As part of its application, SDG&E also proposes to upgrade its Advanced Metering Infrastructure (“AMI”) meters originally deployed in 2009 and 2010. SDG&E explains that the upgrades are needed so that customers have ready access to information about how and when they use energy, what contributes to their energy bill, and how they can better manage and control their energy use to meet their needs. The upgrade, SDG&E argues, will enhance grid capabilities, facilitate the company’s grid modernization plan objectives, enable continued growth for DERs, enhance and protect the capture and accurate relay of customer meter data

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<sup>53</sup> Exh. SDGE-13 at JTW-8:13 to JTW-8:14.

<sup>54</sup> Exh. SDGE-13 at JTW-15:9 to JTW-15:15.

<sup>55</sup> Exh. SDGE-13 at JTW-15:15 to JTW-15:17.

information. SDG&E proposes capital spending for meter replacements in the amount of \$4.3 million for 2022, \$32.8 million for 2023, and \$58.5 million for 2024.<sup>56</sup>

The reasonableness of these proposed expenditures is questionable, and they must be subjected to close scrutiny. Billing is one of the primary uses of the data collected, and so a major question is why current equipment needs to be upgraded for billing purposes if data is being collected accurately. Outside of the billing application, SDG&E uses customer data for select purposes, but the extremely limited nature of SDG&E's data sharing practices with CCA programs and with third party service providers, to name two examples, means that the data has only narrow applications. The Commission should not approve major upgrades to meters without meaningful benefit to ratepayers.

#### **H. Functionalization and Necessity of Customer Service Costs**

The Commission requires customer care (or customer service) cost allocations providing support services to be tracked, reported, and to specifically show the extent to which its customer care services and programs support the IOU's electric generation function as compared to electric distribution and gas distribution functions.<sup>57</sup> To "ensure that costs are appropriately functionalized" and to show that cost allocations are justified and supported, the Commission emphasized the need for a stronger evidentiary record, which makes clear whether generation customers cause more or less customer service costs to be incurred than gas or electric distribution customers.<sup>58</sup>

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<sup>56</sup> Exh. SDGE-17, Table DHT-4.

<sup>57</sup> D.20-12-005 at 314-315.

<sup>58</sup> *Id.* at 313-315.

SDG&E's Application is requesting \$37.5 million for TY 2024 associated with customer services, representing a 7.8% increase from Base Year ("BY") 2021 adjusted recorded costs. Such customer services involve operations around billing, credit and collections, remittance processing, postage, branch offices, and customer contact center operations, customer contact center support, and customer operations compliance and strategy. Specifically, SDG&E forecasts include substantial increases in operational costs for billing and customer operations compliance and strategy to support the transition of most of its customer base to a CCA provider as well as a number of proposed Information Technology ("IT") capital expenditures for which its necessity and proper functionalization are not immediately clear.

SDG&E requests \$237,000 in labor for two additional staff positions and \$257,00 in non-labor for contract resources to handle billing activity and increases in market transactions between SDG&E and its LSEs as CCA programs expand.<sup>59</sup> The two positions will support "company compliance with CCA related tariffs and rules" as well as support for "Commission proceedings where CCA activity within the SDG&E business landscape is considered."<sup>60</sup> As CCAs activities largely deal with the generation component of providing electricity, these additional positions are likely to support aspects related to SDG&E's generation activities as a competitor of CCAs. Thus, a closer look is warranted to ensure proper functionalization of costs and fair competition between CCAs and SDG&E.

SDG&E seeks approximately \$64,000,000 between 2022 and 2024 for upgrades to its new Customer Information System ("CIS") system that facilitate CCA customer transitions, provide an enhanced online digital customer experience that enables more self-service

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<sup>59</sup> Exh. SDGE-18 at SFB-10:6 to SFB-10:9.

<sup>60</sup> Exh. SDGE-18 at SFB-34:26 to SFB-35:2.

capabilities, improve operational efficiency, and provide security enhancements to protect customer information against cybersecurity threats.<sup>61</sup> Such enhancements purported benefits include new online customer capabilities to request field services for “annual gas pilot relighting,” “automation that support the creation and completion of service orders and streamline cross-functional handoffs and processing,” “enhanced data visualization for customers participating on Net Energy Metering,” and the automation and streamlining of the processing of program applications.<sup>62</sup>

Lastly, SDG&E requests funds for its Contact Center of the Future project which would digitally transition its Customer Contact Center to a “cloud-hosted environment” that leverages artificial intelligence (“AI”) technology of which the purported benefit include the elimination of on-site hardware, implementation of a virtual agent function and interactive voice response, and modernization of workforce training via eLearning.<sup>63</sup> The Joint CCAs wish to investigate necessity and/or reasonableness of such a proposal.

Given the Commission’s prior direction and the Joint CCAs’ continuing interest in ensuring costs are appropriately functionalized, it is of critical importance to the Joint CCAs to fully investigate and analyze these costs.

#### **I. Other Issues that May Require Further Investigation and Analysis**

As previously stated, the Joint CCAs’ review of the Application is ongoing and will require significant time and discovery to investigate whether the testimony and data provided support SDG&E’s proposals. For example, such issues include:

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<sup>61</sup> Exh. SDGE-01 at BAF-5:14 to BAF-5:24.

<sup>62</sup> Exh. SDGE-01 at BAF-40:17 to BAF-43:13.

<sup>63</sup> Exh. SDGE-01 at BAF-38:4 to BAF-39:27.

- Whether the \$17 million requested investment in a hydrogen pilot at Palomar is reasonable, in the interest of rate payers, and recovered via the appropriate functionalization and cost recovery mechanisms.<sup>64</sup>
- Whether reasonable revenue requirements and correct cost recovery mechanisms have been identified for SDG&E's various generation and distribution investments;<sup>65</sup> and, if no cost recovery mechanism is identified, that costs only flow through to benefitting customers.

Accordingly, a careful review is necessary to ensure that SDG&E's proposals comply with Commission directives and provide a sufficient record to support its requested relief.

## **V. CATEGORIZATION AND NEED FOR EVIDENTIARY HEARINGS**

The Joint CCAs agree with the classification of this proceeding as “ratesetting,” and, for the reasons explained above, believe that hearings are necessary.

## **VI. PROPOSED SCHEDULE**

The Joint CCAs object to SDG&E and SoCalGas' Track 1 proposed schedule. Specifically, the Joint CCAs oppose the proposed date for intervenor testimony to be served, on December 15, 2022. Due to the timing of the Energy Resource Recovery Account (“ERRA”) forecast Application overlapping with this GRC Application, anticipated witnesses will be occupied and unavailable for GRC testimony. The Joint CCAs respectfully request the above date be pushed back until after January 1, 2023.

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<sup>64</sup> Exh. SDGE-15 at FV-31:3 to FV-33:2; Exh. SDGE-14 at p. DSB-15, Table DSB-5.

<sup>65</sup> See, e.g., Exh. SDGE-15 at FV-4:18 to FV-30:20; Exh. SDGE-14 at DSB-5:7 to DSB-7:11, DSB-13:1 to DSB-16:12.

## **VII. COMMUNICATIONS**

The Joint CCAs consent to “email only” service and request that the following individuals be added to the service list for A.21-06-021 on behalf of the Joint CCAs:

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## **VIII. CONCLUSION**

For the foregoing reasons, the Joint CCAs request that the Commission set this matter for hearing to fully examine the GRC issues discussed above. The Joint CCAs appreciate consideration of the issues and points raised in this protest.

Respectfully submitted,

*/s/ Chasity Hendren*

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June 20, 2022

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June 20, 2022

*On behalf of the Joint CCAs*